Exam 2018

1) Define indirect tax.

- An indirect tax (such as sales tax, per unit tax, value added tax (VAT), or goods and services tax (GST), excise, tariff) is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). Indirect taxes are basically taxes that can be passed on to another entity or individual.

2) What do you understand by "non- business chargeable assets"?

- Non-business chargeable asset: means any land, building and interest or security in any entity except business assets, depreciable assets or stocks-in-trade and other as per income tax Act 2058.

3) Briefly describe the provision related to quantification of vehicle facility provided to an employee.

i. If it is provided to employee, labor and individual receiving monthly salary: 0.5% of his/her salary should be included in income.
ii. If it is provided other than mentioned above, 1% of market value of vehicle should be included in income.

4) Mr. Samir, a citizen of Pakistan came to Nepal on 10th Marga, 2072 and return back on last Chaitra, 2072.

Required: his residential status.

- Non-resident because he had not stay in Nepal more than 182 days. i.e.

FY- 2072/073 [arrived: 10th Marga, 2072] [left: last Chaitra, 2072]

Marga	21
Poush	30
Magh	30
Falgun	30
Chaitra	29
Total days	140

5) Mr.Thapa reported total taxable income, from business activities of Rs.800000 (including Rs.150000 net gain from disposal of shares)

Required: tax liability

- Calculation of tax liability :

For first Rs.350000	Nil
Next Rs.100000 @15%	Rs.15000
Next Rs.200000 @25%	Rs.50000
Gain from disposal… Rs.150000 @5%	Rs.7500
Tax liability	Rs72500

Exam 2018 (make-up)

1) Clarify the concept of tax.

- A tax is a mandatory financial charge or some other type of levy imposed upon a taxpayer by a governmental organization in order to fund various public expenditures. A failure to pay, along with evasion of or resistance to taxation, is punishable by law.

2) State any four incomes that are exempted from tax.

i. Agriculture income
ii. Pension income
iii. Allowance for foreign service
iv. Amount received by an exempt organization by donation and gifts.

3) State the meaning of 'diplomatic facility' under custom duty Act of Nepal.

- Diplomatic facility means such facility or privilege as to allow the exportation or importation of any goods keeping only books of record, without examining such goods and collecting duty.

4) Mr. Gautam took retirement from government service. Gross amount receivable by him from his retirement fund account as calculated by PF Corporation was Rs.1800000 out of which Rs.500000 was contributed before 19th Chaitra 2058.
Required: tax payable by Mr.Gautam

Computation of tax payable by Mr.Gautam	
Total retirement payment in lump sum basis	Rs.1300000 (Rs.1800000 – Rs500000)
Less: 50% of 1300000 or Rs.500000 (whichever is higher)	Rs.650000
Taxable amount	Rs.650000
Tax payable @5%	Rs.32500

5) Following information of a Public Ltd. Company are given:
Assessable income from business after deducting pollution control cost (PCC) = Rs.1500000
Amount of PCC= Rs.300000
Donation given to tax exempt organization =Rs.200000
Required: amount of donation deductible for the period.

Adjusted taxable income and allowable donation:	
Adjusted taxable income for donation	Rs.1800000 [Rs.1500000+Rs.300000]
Allowable donation:	
5% of Rs.1800000	Rs.90000
Or, actual donation	Rs.200000
Or, maximum (whichever is lower)	Rs.100000
Amount of donation:	Rs.90000

Exam 2017

1) Enumerate any four duties of tax under income tax Act 2058.
i. Bring all income generating activities into the tax net.
ii. Harmonize tax rates and concessions on equity grounds.
iii. Widen the tax base.
iv. Minimize tax avoidance and tax evasion.

2) Clarify the meaning of excise under excise duty Act 2058.
- An excise may be defined broadly as an inland tax on the production or sale of a specific good. An excise is an indirect tax, meaning that the producer or seller who pays the tax to the government is expected to recover the tax by raising the price paid by the buyer.

3) List out any four expenses which are expressly disallowed for deduction under IT Act 2058.
i. Dividend payment
ii. Meeting fee
iii. Petty expenses up to Rs.500 at one time
iv. Personal expenses
v. Advance office rent

4) Following information are provided:
Opening value of depreciation base of asset 'pool B' = Rs.500000
Purchase of asset 'pool B' on Chaitra = Rs.600000
Disposal value of asset 'B':
Book value = Rs.300000
Cash value: Rs.250000
Required: amount of depreciation to be charged for the period.

Calculation of allowable depreciation:	
Opening WDV for the year	Rs.500000
Add: absorbed addition	
Purchase of asset on Chaitra (600000*2/3)	Rs.400000
Total	Rs.900000
Less: disposal value (CSV)	Rs.250000
Depreciation and repair base	Rs.650000
Less: allowable depreciation @25%	**Rs.162500**

5) Following information are given:

Net salary received (after deducting tax at source and provident fund contribution) = Rs.628000

Income tax deducted at source Rs.20000

His contribution to provident fund Rs.72000 and employee has also contribution an equal amount.

Required: Monthly salary

- Solution:

Gross salary = 628000 + 20000 + 72000 = Rs.720000

Monthly salary = Rs.720000/12 = Rs.60000

Exam 2016

1) List out any two demerits of direct tax.

i. Inconvenient
ii. Evadable
iii. Arbitrary
iv. Uneconomical
v. Discourage saving and investment

2) Differentiate between income year and assessment year.

Income year (financial or fiscal year)	Assessment year
Income year means the period from the 1st day of Shrawan of a year to the end of Ashad of the following year.	Assessment year is the year immediately following the income year wherein the income of the income year is assessed.
It is the year in which you have earned the income.	Income earned in financial year becomes taxable in assessment year.
Current income year is 2075/076	Current assessment year is 2076/077

3) Mr. Jone an Italian citizen came to Nepal on 21st Falgun of previous year and involved in investment activities.

Required: his residential status.

- Mr. Jone is Non-resident because he had not stay in Nepal more than 182 days. i.e.

Mr. Jone residential status:

FY: 2074/075 Arrived: 21st Falgun 2074			
Falgun	10	Jestha	31
Chaitra	30	Asad	32
baisakh	31		
Total	134 days		

4) State any four examples of revenue expenditure.

i. Rent
ii. Salary
iii. Commission
iv. Advertisement

5) Mr. Karki an industrialist involved in export business has taxable income of RS.2000000 before basic exemption.

Required: Tax liability.

Computation of tax liability

For 1st Rs.350000	Nil
Next Rs.100000 @15%	Rs.15000
Balance Rs.1550000 @15%	Rs.232500
Total tax liability =	Rs.247500

Note: individual having export business is taxed @15% in place of 25% and 21% in place of 35%.

MMC, Dharan 2019

1) Define direct tax with examples.

- A direct tax is a form of tax paid by person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. For example: income tax, property tax, vehicle tax, interest tax, gift tax etc.

2) Explain about capital gain with applicable tax rates.

- Capital gains (losses) means any profits or gains (losses) arising from transfer of capital assets. It is gain (or loss) realized from the disposal of capital assets. Capital gains tax refers to tax imposed on the gains or sale or disposal of capital assets. Currently, gain from disposal of a non-business chargeable asset is taxed at 10% and gain on disposal of shares listed at SEBON is taxed at 5%

3) List out any two fringe benefits that are required to be quantified as per ITA 2058.

i. Housekeeper facility
ii. Driver facility
iii. Entertainment
iv. Electricity bill

4) A special goods manufacturing company earned total taxable income Rs.4300000. the company is providing direct employment to 1000 Nepalese citizens during the year.
Required: tax liabilities

- We have,
  Total taxable income = Rs.4300000
  Applicable tax for providing employment to 1200 Nepalese citizens = 90% of 20 = 18%
  Hence, tax liability = 18% of 4300000 = Rs.774000

5) Mr. Narayan is a Nepali citizen went to USA for the employment on 1st of Baisakh 2074. He stayed there till the end of Chaitra 2074. What would be his residential status for the year 2074/075?

- He is not resident because he did not stay in Nepal for more than 182 days. i.e.

FY = 2074/75
Left = 1st Baisakh 2074 arrived= 30th Chaitra 2074

Baisakh 2075	31
Jestha	31
Asad	32
Total	94 days

Make-up 2019

1) What do you understand by 'tax deduction at source' (TDS)?

- TDS is the tax deducted from employment income, investment return, service fees, contract or other incomes by the payer of the income and paid to tax authorities wholly on behalf of the recipient. It is also known as withholding tax, is imposed on receiver but collected through payers.

2) Briefly describe the provision related to quantification of accommodation facility provided to an employee.

i. If it is provided to employee, labor or any other individual receiving monthly remuneration then 2% of salary should be included in employment income.
ii. If it is provided to other individuals not mentioned above then 25% of actual rent or providing rent should be included in employment income.

3) The following information related to company is given below:
Allowable depreciation (block 'B') = Rs.300000
Actual repair and improvement cost = Rs.120000
Required: allowable repair and improvement cost.

Calculation of allowable repair and improvement cost.		
Depreciation basis	Rs.400000	
Less: depreciation @25%	Rs.100000	
Allowable depreciation		Rs.300000
7% of depreciation basis	Rs.28000	
Or, actual repair cost (whichever is lower)	Rs.120000	
Allowable repair cost		Rs.28000

SDC 2018 and 2019

1) Define the term non business assets under income tax act 2058.

- A non-business asset is a class of assets that are not essential to the ongoing operations of a business but may still generate income or provide a return on investment (ROI). For example: land, building, stocks, patents etc.

2) Enumerate any five objectives of ITA 2058.

i. Bring all income generating activities into tax net.
ii. Harmonize tax rates and concessions on equity grounds.
iii. Widen the tax base.
iv. Make income tax elastic and revenue productive.
v. Minimize tax avoidance and tax evasion.

3) A company limited provide you the following information regarding depreciable assets under pool B. Opening WDV Rs.1200000. New computer purchased on Baishak 20 of Rs.300000. disposal of assets under same block was Rs.300000. calculate the allowable amount of depreciation under ITA 2058.

- Computation of allowable depreciation

Opening WDV for the year	Rs.1200000
Add: absorbed addition	
On Baisakh 20 (1/3 of 300000)	Rs.100000
Total	Rs.1300000
Less: disposal	Rs.300000
Depreciation basis	Rs.1000000
Depreciation @25%	Rs.250000

4) Enumerate five characteristics of ITA 2058.

i. Confinement of all related matters
ii. Detailed definitions
iii. Broad tax base
iv. Deduction of related expenses
v. Block base depreciation

5) Define the term 'physical control and self-removal system' under excise duty Act of Nepal.

- Physical control system refers to a system in which production, removal, import and export of excisable goods are controlled by the excise duty officer or his designated employees.
- Self-removal system refers to a system of production, removal, import and export of excisable goods except based on physical control system.

6) Mr.Mukesh Yadav earned Rs.800000 by carrying out a business in Nepal. He also earned Rs.200000 from foreign country. He has paid Rs.25000 income tax in origin of country. He claimed foreign tax credit. You are required to calculate tax payable to Nepal government after adjusting foreign tax credit.

Calculation of tax liability:

Upto Rs.350000	Nil
Nest Rs.100000 @15%	Rs.15000
Balance Rs.550000@25%	Rs.137500
Total tax liability	Rs.152500
Less: allowable foreign tax credit	Rs.25000
Tax payable	Rs.127500

Average rate in Nepal = $\frac{total\ tax\ liability}{total\ taxable\ income} * 100\%$ = $\frac{152500}{1000000} * 100\%$ = 15.25%

Allowable foreign tax credit:

15.25% of 200000 = Rs.30500
Or actual = Rs.25000
(whichever is lower)

MMC –Bhadrapur 2019

1) What do you understand by "cash basis and Accrual basis" of accounting system?

- Cash basis of tax accounting is the method that treats an amount as income only when payment is received and as expense when the payment is made.
- Accrual basis of tax accounting is the method that treats an amount as income when the person becomes entitled to the payment and as expense when the person is obliged to make the payment.

JMC 2019

1) Mr. Shukla an Indian citizen came to Nepal on 15th Kartik 2074 and returned back to India on last Baisakh 2075. Explain his residential status with reason.

- Mr. Shukla is resident because he lived in Nepal more than 182 days. i.e.

Kartik	16	Falgun	30
Manghsir	29	Chaitra	30
Poush	30	Baisakh	30
Magh	29	Total =	194 days

2) A special industry has Rs.350000 as opening WDV in block D assets. It acquired one machine for Rs.250000 on Poush 20th and another on 15th baisakh for Rs.300000. similarly it disposed of existing one having book value Rs.150000 for Rs.200000 in Magh 25th. Compute the amount of depreciation chargeable on this pool of assets.

Computation of allowable depreciation for pool D

Opening WDV for the year	Rs.350000
Add: In poush 20	Rs.250000
Add: In Baisakh 15 (1/3 * 300000)	Rs.100000
Total	Rs.700000
Less: disposal value	Rs.200000
Depreciation base	Rs.500000
Less: depreciation @20% (15+5)%	Rs.100000

3) Briefly explain the provision related to donation in ITA 2058.

i. Donation given to approved tax exempt organization as follows:

5% of adjusted taxable income (after deducting contribution to approved retirement fund)	***
Or actual donation paid	***
Or maximum limit (whichever is lowest)	Rs.100000

ii. Donation given for the work of protection and promotion in Nepal given by pre-approval of IRD is allowed as follows:

10% of total assessable income	***
Or actual donation paid	***
Or maximum limit (whichever is lowest)	Rs.1000000

iii. Donation given to the prime minister Relief fund and reconstruction fund established by the government is fully allowed for deduction.

4) Clearly state the provision of taxation on income of disable person in Nepalese tax laws.

- Reduction of 50% of basic exemption for a disabled individual.

PMC 2019

1) List out any two merits of indirect tax.

i. Convenient
ii. Mass participation
iii. Less tax evasion
iv. Regulate consumption

2) What do you understand by canon of economy?

- Canon of economy states that the collection expenses of tax should be less than the amount of tax collected so that a surplus to public revenue is generated and the country will be benefited. The amount that goes from the taxpayers pocket should not differ greatly with the amount that actually goes to government's treasury.

3) Calculate the allowable depreciation and repair expenses:

Opening WDV of assets of pool 'C' on 1st Shrawan = Rs.200000
Addition under same pool on 1st Magh = Rs.150000
Add on Jestha 10 = Rs.75000
Dispose during the year having book value of Rs.50000 at Rs.40000
Actual repair expenses = Rs.70000

Calculation of allowable depreciation and repair expenses for pool C

Opening WDV	Rs.200000
Add: In 1st Magh (2/3 * 150000)	Rs.100000
Add: In 10th Jestha (1/3 * 75000)	Rs.25000
Less: disposal	Rs.40000
Depreciation basis	Rs.285000
Allowable depreciation @20%	Rs.57000
For repair expenses:	
7% of depreciation basis	Rs.19950
Or, actual	Rs.70000
Allowable repair expense (whichever is lower)	Rs.19950

PYC 2019

1) Write any two demerits of indirect tax.

i. Uncertain
ii. Unproductive
iii. Regressive
iv. Less civic consciousness

2) What do you understand by 'canon of equity'?

- Canon of equity states that the tax must be levied according to tax paying capacity of the individuals. Also states that the burden of taxation should be fair and just. Tax policy should not discriminate the persons with same income level.

3) Write about tax exempt organization.

- Those organization who are free from tax payment to government are considered as tax exempt organization. Following entities registered with IRD as tax-exempt entity:

i. A social, religious, educational or charitable organization of public character registered without having a profit motive.
ii. A political party registered with the election commission
iii. A VDC, a municipality or a DDC

4) Mention the exemption provided to pension holders.

- Reduction of up to 25% of basic exemption for the individual having pension income.

SOME IMPORTANT QUESTIONS:

1) Define canons of taxation. State any four types of it.

- Canons of taxation refer to a set of criteria used to judge whether or not a tax is a "good" tax. They are the basic principles of taxation upon which a good tax system is built. The 'canons of taxation' were first developed by Prof. Adam Smith.
- Some of the types of canons of taxation are:

i. Canon of equality
ii. Canon of certainty
iii. Canon of convenience
iv. Canon of economy

2) What do you mean by assessment of tax? List out the methods of tax assessment as defined in the Act.

- Assessment of tax simply define as determination of tax to be paid under the ITA 2058 and it includes an assessment of interest and penalty made under this Act.

i. Self-assessment: A self-assessment is a tax collection regimen in which a taxpayer is responsible for accurately computing and reporting his or her liability to tax office.
ii. Jeopardy assessment: it is an official assessment conducted by tax officials in special circumstances. The Act has given the authority to carry out jeopardy assessment under the following situations when a person becomes bankrupt or goes to liquidation, about to leave Nepal indefinitely.
iii. Amended assessment: it is a type of an official assessment where the tax officials make the review or re-assessment of self-assessment or jeopardy with a view to determine the assessee's correct tax liability.

3) State any three circumstances where returns of income are not required.

i. A person who has no tax payable amount for the year.
ii. A person who receives a final withholding payment.
iii. An individual vehicle owner paying flat taxes.

4) List out any three rights of taxpayers.

i. Right to get respectful behavior
ii. Right to receive tax related information as per prevailing laws.
iii. Right to appoint lawyers or auditors for defense.
iv. Right to get refund of excess tax paid.

5) What is VAT (goods and services tax)? Write any three advantages of VAT.

- VAT is an indirect tax levied on value added of goods and services at each stage in the process of production and distribution chain.

i. VAT minimizes tax evasion due to its catch-up effect.
ii. It is simple to administer as compared to other indirect taxes.
iii. It is based on value added not on total price. So, price does not increase as a result of VAT.
iv. There is mass participation of taxpayers.

6) List the methods of computing VAT.

i. Addition method
ii. Subtraction method
iii. Tax credit method

7) State any two achievements of the government of Nepal that you have observed by implementing VAT in Nepal.

i. The VAT replaces other unsatisfactory indirect taxes.
ii. Minimization of tax evasion

8) Write in brief the difficulties faced by businessmen in realization of VAT.

i. Costly to implement
ii. Complex to understand

9) List any four goods and services that are exempted from VAT.

i. Basic agricultural products
ii. Goods of basic needs
iii. Education
iv. Books, newspaper and printings
v. Transportation: passengers or goods

10) Mention the date of establishment of VAT and income tax in Nepal.

- Vat = 2052 BS implemented fully on Mangsir 1st of 2054
- Income tax = first time on 2015 BS and existing on Chaitra 19th of 2058 BS

11) List any three methods for the valuation of goods to be imported for customs purpose.

i. Transaction value
ii. Computed value
iii. Deductive value

12) Define excisable product. Write its purpose.

- Excisable products refers to the goods and services on which excise duty is applicable as per excise Act and the prevailing law.

i. To protect people
ii. To provide resources needed
iii. To punish the user

13) What is factory price?

- Factory price implies the amount inclusive of the expenses incurred in the production of excisable goods and the profit of an academy without adding the excise duty or the other taxes.

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